

Technical Assistance Facility (TAF) for Industrial Modernisation and Investment

TOOL #2 Undertaking market research

Assessing the size, the competitors, the trends, the risks and opportunities of your market

What is the tool about?

Market research is used to evaluate the market potential, its trends and risks & opportunities. It will help understanding the dynamics of the competition and how it evolves, it is aimed at better comprehend the evolving customer's needs and preferences.

Why is it important?



A market analysis fulfils a number of objectives. First it constitutes a major step towards defining your strategy by combining the outward perspective with your strengths and weaknesses. Carrying out a market analysis will also help you better understanding macro trends in the market you intend to enter and the anticipated evolution of customers' preferences and positioning of competitors. From these, you'll learn take-aways as to how to set your distribution and delivery method.

The market analysis will also provide you with insights for building up your financial projections in terms of revenue growth and will also be challenged in future discussions with potential investors. To understand the market associated with your product/service and anticipate how your target stakeholders will react to your offer. The information obtained can be used to help you define a route to market strategy, for instance set your price, tailor your marketing/advertising activities or to determine feature priorities/service requirements of your customers, as well as develop appropriate distribution, delivery methods and payment models.



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Checklist/key steps:

-  **Define your market:** mind the difficulty to properly identify what your market is. Start-up / founders have a propensity to believe their services/products do not exist and claim they are creating a new market. This is a dangerous assumption to make. Customers or end-users may be interested in using substitute products or services that are not 100% the same as yours, yet these products are part of your competition. Please also bear in mind to not define your market too narrowly. Technological advancement, changes in customers' preferences or strategic moves by competitors may and will affect the market size you have identified. To find your market, a trick is to identify those providers catering to the market products/services that are used by customers that you want to serve yourself. For instance, you intend to sell on the market a new bio and natural sparkling drink for sport lovers. Identify what drinks do the sport lovers currently take and these will be part of your market.
-  **Look at your market/industry's structure and outlook:** this step includes a preliminary analysis of your industry. Define its structure by detecting its main segments and value chains, and use metrics such as size, trends, and projected growth to assess its current state. Finally, conduct additional research to understand the recent developments and current trends, as well as potential business opportunities. Do not hesitate to consult the Internet and find data about the market you've identified. There are countless of chargeable

market studies but also a few that are freely accessible. Further, you may decide to refine your understanding of the market by looking at industry reports or annual reports of listed competitors. These usually are a great source to understand how their business model operates. Go on industry or company blogs to collect as many insights as possible to better understand the market structure and dynamics. Check EU legislation agenda to see whether a legal change may open or close opportunities for your business.

- ✚ **Identify its key stakeholders:** map established companies as well as new entrants, customers, suppliers, investors, non-profit organizations as well as public authorities and other relevant entities that might influence the industry's operations, competition and accessibility.
- ✚ **Validate – Assess – Evolve:** this step is crucial: for the key stakeholders you've identified, try to understand what exactly their needs and preferences are. Specifically for potential customers, pay attention to their views on the product/services that currently exist and what can be improved. Try to validate your product/service features as well. Engaging actively with customers either through interviews or through surveys will help you not only to validate your envisaged products but also pivot and change or amend your features to best meet the customers' needs.
- ✚ **Identify key competitors:** based on the information collected from the market analysis and interactions with to-be customers, focus on a limited number of key competitors. Try to get the ins and outs of their business, assess their strengths and weaknesses (do their own SWOT analysis). Based on your strategy and envisaged actions, try to assess how these may react (would they start a price war, try to move aggressively or do nothing?). Figure out what makes their products/services successful in the market and how they secured their market share (Are there long-term contracts with potential customers? Are the competitors securing their customers by cross-selling different services?, etc.).
- ✚ **Define customers and end-users; shape your offer:** use the information collected to further revise your offer and position it in your target market.

Methods

There are different approaches and techniques used to conduct market research. Whether you start from the assessment of your targeted customers' preferences or from the broader exploration of your market's trends/opportunities, it's essential that you **define the scope and objectives** of your research at the beginning of the process (i.e. the key information that you would like your research to uncover). Therefrom, you can develop a set of specific research questions that you can address through **collection of relevant data**. The **interpretation of findings** will enable you to draw conclusions and make informed decisions. Below are the most common methods used for data collection and analysis:

Data collection:

- **Secondary sources** consulted through desk research might include national/international statistics databases; industry and trade publications; marketing and customer lists; newspapers as well as social media and websites.
- **Primary sources** include results from surveys/questionnaires; interviews or focus groups, or covert/overt observations. Stakeholder consultation tools can be used to understand the current offer on the target market/business area and as a way gather preliminary customer feedback on your offer/business case. It might be difficult to find questions for a survey. What information do you want to receive? How will the information fit in your project?
 - Bear in mind that survey should not last more than a couple of minutes to answer, hence do not overload your respondent with questions;

- Start backward, what are the answers you may expect and what questions are needed to arrive to these answers;
- Focus on a limited number of key assumptions you'd like to validate;
- Ask details about the customers (e.g. location, gender, age range, purchase power, etc.) and ask for action (i.e. would they be interested in being contacted once the product is launched? Or would they be interested to use a beta version of the product?).

Data analysis:

- **SWOT analysis:** this framework is used to evaluate the competitive position of a company as well as a part of a business (e.g. product line or division, industry, etc.) through a structural analysis of the external factors (competitive context and environmental influences) that allow to identify the main opportunities and trends, and of the internal factors to define its main strengths and weaknesses. Do not do this exercise linearly! It is better to start filling in the SWOT analysis as you are progressing step by step with the market analysis rather than at once. This is a demanding exercise that needs focus and concentration; if you are doing it at once, the odds are that you'll rush through the Opportunities and Threats.
- **Porter's 5 Competitive Forces:** this model can be applied to any industry segment to understand the level of competition within the industry. The model identifies and analyses five competitive forces defining every industry (competition in the industry; potential of new entrants into the industry; power of suppliers; power of customers; threat of substitute product) and helps determine its weaknesses and strengths.
- **PESTLE analysis:** helps analysing external macro-environmental factors (Political, Economic, Social and Technological, Legal and Environmental) that can have a significant influence on the business area/industry under scrutiny, to identify a more comprehensive set of external opportunities and threats. The model can be used to integrate the results of more basic models such as Porter's 5 Competitive Forces.



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Porter's 5 Forces and PESTLE analysis are great tools to assess the outward environment of your project. The SWOT analysis is the combination of the out- and inwards analysis and is an essential tool to start defining your strategy. The strategy could be to start on your strengths and play out on the market's opportunities. Another strategy could be to play on the weaknesses of your key competitors and develop your products, securing progressively market share.

Does and don'ts for interregional investment initiative development:

Dos:

- Consider the impact of **short-term external factors** (e.g. local-scale natural disasters, major political events) as well as the dynamic characteristics of the market/industry you are targeting;
- Consider the **industry lifecycle stage** (i.e. earlier stage industries will likely be more turbulent than established industries);
- Conduct a **need analysis** of the market under exploration before defining your offer;
- Be open to **re-assess the assumptions** you based your product on depending on the interactions with to-be customers.

Don'ts:

- Ignore **potential movements of competition** and emerging market dynamics;
- Undertake market research with **pre-set assumptions**; the more objective your starting point, the more effective and comprehensive will be your exploration process;
- Limit your stakeholder consultation to a **sample group with similar characteristics**: the more varied your sample group is, the more meaningful your data will be.

Case studies:

- ✚ COMPLAT project from Traceability and Big Data Partnership.
- ✚ Innovative Hybrid Manufacturing (IHM) project from High Performance Production through 3D-Printing.

More resources:

- ✚ Industry data collection: <https://bit.ly/3DBJihW>
- ✚ SWOT analysis – Strengths, Weaknesses, Opportunities, and Threats: <https://bit.ly/3HBIUUa>
- ✚ Porter's 5 Forces of Competitive Position analysis: <https://bit.ly/3qUfYjk>
- ✚ A guidance note to PESTLE analysis: <https://bit.ly/3x4td1K>